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ECONOMIC INTELLIGENCE REPORT

SINO-SOVIET BLOC ECONOMIC ACTIVITIES
IN UNDERDEVELOPED AREAS
1 JANUARY - 30 JUNE 1959

EIC-R14-S7

28 AUGUST 1959

ECONOMIC INTELLIGENCE COMMITTEE

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Nº 538

CENTRAL INTELLIGENCE AGENCY

Office of Research and Reports

**MEMORANDUM FOR: Recipients of EIC-R14-S7, Sino-Soviet Bloc
Economic Activities in Underdeveloped
Areas, 1 January - 30 June 1959,
28 August 1959,**

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SUBJECT: Correction of EIC-R14-S7

Replace the map, Figure 2, following page 22, and Table 10, page 82, with the attached corrected copies. Both the map and the table are printed on gummed stock and may be inserted directly over the pages concerned.

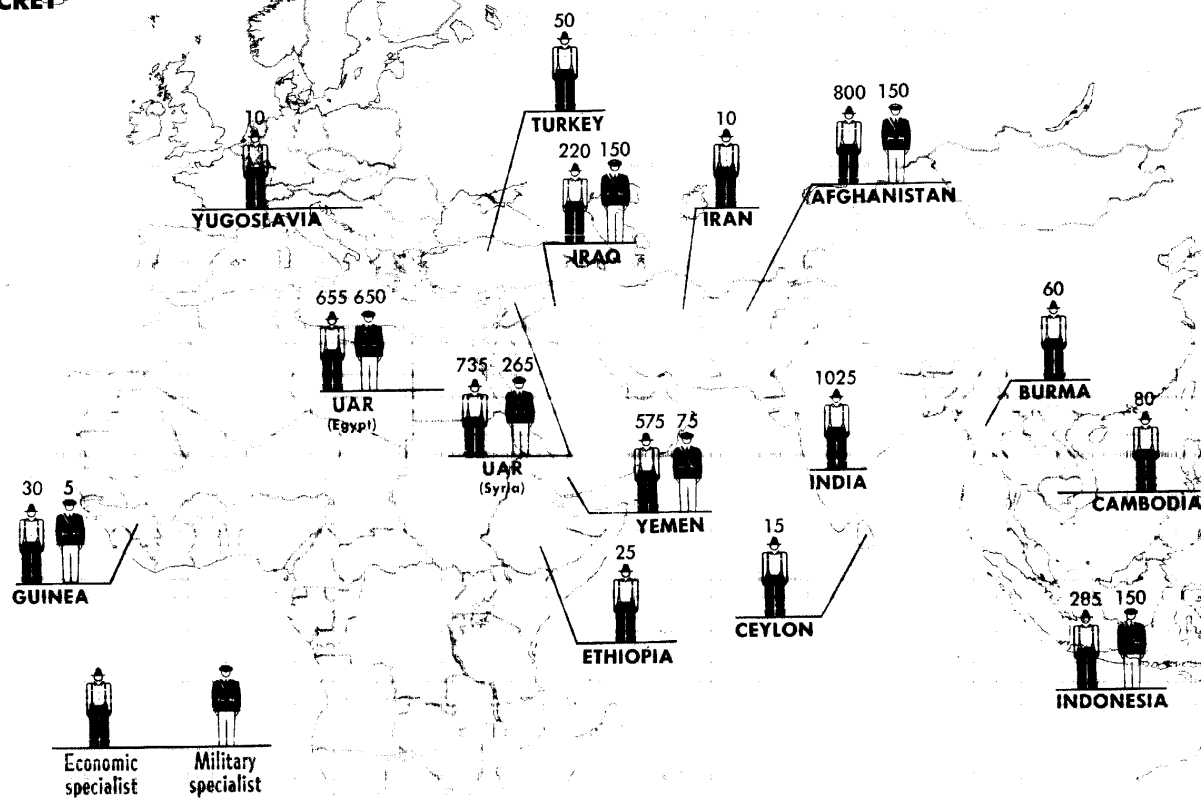
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FOR THE ASSISTANT DIRECTOR, RESEARCH AND REPORTS:

Chief, Publications Staff

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Note: Argentina had 100 economic specialists, and Brazil, Chile, Mexico, etc.

Soviet Bloc Economic and Military Specialists in Underdeveloped Countries of the Free World

1 January - 30 June 1959

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Figure 1
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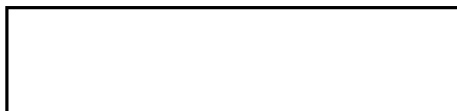
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FOREWORD

The reports on Sino-Soviet Bloc economic activities in underdeveloped areas in the EIC-R14 series provide periodic summaries and analytical interpretations of significant developments in the economic relations of Sino-Soviet Bloc countries with the underdeveloped countries of the Free World. These developments are reported on a current, factual basis in the Biweekly Reports in the EIC-WGR/1 series, under the same title.

This report, covering the 6 months from 1 January through 30 June 1959, constitutes the seventh periodic supplement to EIC-R14, the background report on Sino-Soviet Bloc Postwar Economic Activities in Underdeveloped Areas, 8 August 1956, SECRET. This supplement was prepared by a Working Group of the Economic Intelligence Committee, including representatives of the Departments of State, the Army, the Navy, the Air Force, Commerce, and Agriculture; the International Cooperation Administration; the Office of the Secretary of Defense; and the Central Intelligence Agency. It was approved by the Economic Intelligence Committee on 13 August 1959.

For purposes of this report, the term underdeveloped areas includes the following Free World countries: (1) all countries in South and Southeast Asia; (2) all countries in the Middle East, including Egypt, Sudan, Turkey, Greece, Afghanistan, and Pakistan; (3) the independent countries of Africa, except the Union of South Africa; (4) Yugoslavia, Iceland, Spain, and Portugal; and (5) all independent countries in Latin America.

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SINO-SOVIET BLOC ECONOMIC ACTIVITIES IN UNDERDEVELOPED AREAS
1 JANUARY - 30 JUNE 1959

Summary

During the first 6 months of 1959, Sino-Soviet Bloc economic activities in underdeveloped areas of the Free World were intensified. The pace with which contracts under earlier agreements were signed was markedly increased. The rate at which new agreements for credit and grant assistance were concluded exceeded the annual average for the period 1955-58 -- \$316 million in new agreements, all of which were economic. This annual average of \$632 million for the first half of 1959 compared with the \$500 million annual average for the earlier years. Bloc technicians entered underdeveloped countries in larger numbers than ever before, bringing the total of those present by mid-year 1959 to well over 6,000.

Among the more significant credits and grants extended by the USSR during the first 6 months of 1959 were a Soviet credit of \$137.5 million to Iraq for general economic development and a Soviet grant to Afghanistan for the construction of a highway estimated to cost \$80 million. The USSR provided more than 85 percent of the new credits and grants extended during this period. In a series of deals marking the Bloc's first economic penetration into Africa, Guinea received more than \$1 million in Bloc grants. In addition, in mid-July 1959, Ethiopia received \$100 million in Soviet credits.

The cumulative total of Bloc credits and grants extended since the beginning of the economic offensive now approximates \$2.6 billion.* Of this amount, \$1.8 billion have been for economic and \$800 million for military aid. Since 1954 the Bloc has extended about \$167 million, or about 5 percent of all Bloc financial assistance, in grant aid to underdeveloped countries. During the first 6 months of 1959, however, grants constituted about 30 percent of new extensions. Although grants extended to Afghanistan and Nepal during this period were the first Soviet grants for economic development projects, this does not necessarily presage a major shift in Bloc aid from credits to grants. It does reflect the willingness of the USSR to provide grants to strategically located countries as the price of expanding Soviet influence. It also reflects Soviet reluctance to risk a decline in Bloc influence that might result from an accumulation of unused lines of credit or cancellation of Bloc projects.

* See Figure 1.

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Bloc credits and grants continue to be concentrated in relatively few countries. To date, about 85 percent of all Bloc credits and grants have been extended to five countries -- the United Arab Republic (UAR), Iraq, Afghanistan, India, and Indonesia.

Although the Bloc will continue to exploit opportunities to establish and expand economic ties with underdeveloped countries, the main emphasis of the Bloc's economic activities probably will continue to be directed to the Middle East. The nature and persistence of the political, economic, and social problems in this area provide the Bloc with the most favorable opportunities for advancing its objectives. The politico-economic situation in the newly independent countries in Africa and the economic difficulties which confront a number of Latin American countries offer additional opportunities for the expansion of Bloc economic activities in these areas.

It is now clear that the USSR is employing the Council for Mutual Economic Assistance (CEMA) as a coordinating instrument for the allocation of contracts under Soviet economic aid agreements with the UAR. Many of the contracts under Soviet credits to the Egyptian and Syrian sectors of the UAR, including parts of the construction of the first stage of the Aswan Dam, are being awarded to the European Satellites.

There do not appear to be any serious limitations on the Bloc's ability to continue or greatly expand its economic aid program. The apportionment of contracts among the European Bloc countries under general economic development agreements tends to minimize the direct demands upon Soviet industry and permits the USSR to concentrate much of its own efforts on projects requiring the presence of a large number of technicians over extended periods.

Problems of economic planning and local finance within the underdeveloped countries receiving Bloc aid may tend to limit the immediate demand on Bloc industry. In several countries, internal political and economic difficulties are reflected in the small amount of local funds available for development projects. This limitation impedes planned rates of implementation and consequently slows the rate of drawings on Bloc credits. On the other hand, it may increase the demand for Bloc grants and provision of local financing.

Approximately \$1.1 billion, or about 40 percent of the total aid extended, have been drawn on Bloc credits and grants as of 30 June 1959. About \$600 million, or 55 percent of total drawings, have been applied to the purchase of arms. Capital goods and technical services account for about 55 percent and 20 percent, respectively, of total drawings to date under all Bloc economic credits. Drawings on military

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credits total 80 percent of military extensions; only 25 percent of economic credits and grants have been drawn.

Drawings on Bloc credits, after allowing for technical services, have not accounted for more than 25 percent of the total imports from the Bloc of major credit recipients in any year period. It is unlikely that, in the future, drawings will account for a larger proportion of total commodity imports of Bloc credit recipients than is presently the case.

Since 1956 the underdeveloped countries have repaid an estimated \$225 million on credits extended by the Bloc. Three-fourths of this amount was repayment for military credits.

One of the most significant developments during the period under review was the large influx of nonmilitary technicians into the countries receiving sizable amounts of Bloc financial aid. More than 6,000 Bloc technicians were actively employed for 1 month or more in 21 underdeveloped countries.* This was an increase of over 2,000 in the number present during the last half of 1958 -- the largest increase during a 6-month period since the Bloc's economic offensive began in 1954. About 75 percent were nonmilitary technicians engaged in activities related to economic development. The greatest increase in the number of Bloc technicians was noted in the UAR, Yemen, Iraq, Afghanistan, and India -- all recipients of sizable Bloc credits. A large number of technicians arrived in Iraq after the conclusion of the Soviet-Iraqi economic aid agreement in March 1959. Approximately 300 Czechoslovak technicians were in Syria to complete the Homs petroleum refinery. More than 500 Soviet technicians arrived in India to undertake the final stages of construction of the Bhilai steel mill, and about 500 Chinese arrived in Yemen to start a highway construction project. The Bloc had at least 1,445 military technicians in the UAR, Yemen, Iraq, Afghanistan, and Indonesia. The largest influx of military technicians occurred in Iraq, where 150 arrived in connection with the Soviet-Iraqi arms agreement concluded in October 1958.

During the first 6 months of 1959 an additional 850 nationals of underdeveloped countries left for military training in the Bloc, bringing the total of such trainees since 1955 to over 2,800.

Bloc technical assistance in other fields, although relatively small, continues to expand. The Bloc has provided medical and public health assistance to 16 underdeveloped countries. This aid includes construction and staffing of hospitals and medical schools, construction of pharmaceutical industries, and the provision of vaccines to combat epidemics.

* See Figure 2.

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The Bloc is providing assistance to construct and staff vocational training centers and technological institutes in a number of underdeveloped countries. In addition, more than 3,000 students from underdeveloped countries have received professional training over the past 4 years in educational institutions in the Bloc.

The use of book exchanges, particularly in connection with scientific and technical training, has become a much used Bloc tactic. The USSR reportedly spends about \$12 million annually to print technical and scientific publications in about 50 different languages.

The Bloc has provided high-level officials to advise the governments of certain underdeveloped countries on plans for economic development. Conspicuous among the beneficiaries of this advice have been India, the UAR, Ceylon, and Iraq.

Sino-Soviet Bloc trade with underdeveloped countries of the Free World during 1958 amounted to about \$2.1 billion, an increase of about 20 percent above the level reached in 1957. This increase was due mainly to a sharp expansion of Bloc exports which converted the previous Bloc trade deficit with these countries into a modest surplus. The European Satellites accounted for about one-half, and the USSR for about one-third, of all Bloc trade with the underdeveloped countries in 1958.

Although credits and grants have had a noticeable effect upon the level of trade between the Bloc and the underdeveloped countries, they account for only a modest share of the expansion which has taken place over the past 5 years. Among the most important factors in the rapid expansion of trade have been (1) the chronic overproduction of primary products in the underdeveloped countries and (2) the Bloc's concerted trade drive designed to exploit the difficulties created by the resulting surpluses. The expansion of trade is also a reflection of the improved political climate which has developed between the Bloc and the underdeveloped countries.

Trade fairs and exhibits, trade missions, and the conclusion of bilateral agreements continue as major Bloc tools for the expansion of trade with underdeveloped countries. In 1958 the Bloc participated in 55 trade fairs and exhibits in these countries and planned to participate in at least 44 in 1959.

During the first 6 months of 1959 the Sino-Soviet Bloc signed 13 new trade agreements with the underdeveloped countries, bringing the total of such agreements to 188 as of 30 June 1959.

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Although difficulties have arisen in isolated cases, the performance of the Bloc in connection with its economic aid program generally has been considered satisfactory and has been well received by most of the underdeveloped countries involved.

A summary of Bloc economic activities in underdeveloped countries, by region, follows:

Middle East and Africa

The Sino-Soviet Bloc economic offensive in the Middle East and Africa was focused mainly on Iraq, Afghanistan, and the UAR during the first half of 1959. The increased Soviet influence in Iraq, which became evident after the coup of 14 July 1958, was reflected in the \$137.5 million Soviet-Iraqi economic assistance agreement that was signed on 16 March 1959. Further evidence was seen in the arrival of military equipment from the USSR during the period under the terms of the arms agreement concluded in late 1958. Although the implementation of the economic assistance agreement has scarcely begun, it became apparent during the period that the Soviet Bloc was destined to play a major role in the fulfillment of Iraqi development plans. The opportunity for large-scale Western participation in such plans was not encouraging.

Soviet Bloc activities in Afghanistan during the period were highlighted by an \$80 million grant in May for a 470-mile road from the Soviet railhead at Kushka on the Afghan-Soviet border to Kandahar in the southern part of the country and the extension of a gift of 40,000 tons of wheat to alleviate an Afghan shortage. The USSR had attained a commanding position in Afghanistan's foreign trade by the middle of 1959, accounting for at least 40 percent of the country's total trade (virtually 100 percent in the case of imports of sugar and exports of cotton and wool). Of all the underdeveloped countries, Afghanistan is the most dependent on Soviet aid and trade.

The most significant events in the UAR affecting that country's economic relations with the Sino-Soviet Bloc during this period were the completion of the Czechoslovak-built petroleum refinery at Homs, Syria, on 15 June and the finalization of UAR-Soviet plans for the construction of the first stage of the Aswan High Dam. No new credit agreements were concluded, and Bloc activities were confined principally to technical surveys and to the implementation of projects under existing credit agreements, especially in the Egyptian region. Aside from the Homs refinery, Bloc activities in the Syrian region seemed to lag during the period. Bloc countries continued to be major trading partners of the UAR, and purchases of Egyptian cotton showed a marked increase above the previous year. Bloc exports of

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capital goods to the Egyptian region were apparently up significantly over the previous period. On the other hand, the cooling in political relations between the UAR and the USSR has precipitated an effort by Nasser to lessen his economic dependence on the Bloc.

Elsewhere, Bloc activities were of significance in Yemen, where Communist China is engaged in a roadbuilding program, and in Guinea, where, at the present time, the Bloc has apparently focused its economic offensive in West Africa. In spite of Bloc efforts in Yemen over the period, which included the shipment of wheat to the drought-stricken country, there was a noticeable cooling in relations with Bloc countries, particularly Communist China. This trend stems from the change in Nasser's attitude toward the Bloc after his December speech attacking Communism in Arab countries. Yemen now appears desirous of curtailing its economic relations with the Bloc and strengthening those with the West. In Guinea, Bloc activities consisted mainly in concluding trade agreements, making modest gifts of arms and other goods, and in the dispatching of technical missions to the country.

South and Southeast Asia

During the first half of 1959, Bloc economic activity in Southeast Asia concentrated on implementing existing programs. In Indonesia, which received most of the Bloc aid extended to the area during this period, deliveries of armaments under the 1958 Czechoslovak and Polish contracts were nearly completed. A tire plant built with Czechoslovak aid was inaugurated, and it appeared that the East German sugar mill might finally be ready for operation. Contract negotiations, however, for major development projects under the \$100 million Soviet loan were proceeding slowly. Delays in utilizing equipment already delivered attested to Indonesia's limited ability to absorb further foreign aid at this time. Repayment problems posed by last year's heavy borrowing from the Bloc as well as increased availability of economic and military credits from Free World sources influenced the government's attitude toward new Bloc economic overtures, but several new Bloc credits in small amounts were accepted and a continued interest in acquiring additional Bloc military equipment was evident. The Bloc was able to expand its influence in the vital Indonesian merchant shipping industry during the period.

India continued to be receptive to all offers of economic aid to help meet the foreign exchange requirements of its Second and Third Five Year Plans. During the period, India accepted a Soviet credit of \$20 million for the development of its pharmaceutical industry, bringing total Bloc credits to India to \$323 million. A Soviet economic mission made a 15-day tour of India in March which was followed

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in May by a visit to Moscow by a high-level Indian economic delegation. The Indian mission discussed not only industrial projects which the USSR has already agreed to build in India but also additional projects included in India's Third Five Year Plan.

Nepal concluded an economic agreement with the USSR in April under which Nepal will receive a grant of \$7.5 million for economic and technical assistance. This marks the first time that Nepal has accepted assistance from the USSR and the first time that it has agreed to admit Bloc technicians.

Reluctance of the government of Burma to finance new development projects and a continued desire for foreign grant assistance as opposed to loans were factors inhibiting the expansion of Bloc economic relations with Burma. Three Soviet construction projects now under way made good progress, but other projects were canceled and the contracts of most of the members of the Soviet agricultural mission to Burma were not renewed.

Elsewhere in the area, Cambodia accepted no further aid from the Bloc, but activity under the Chinese Communist aid agreement was accelerated as construction work on three factories was started.

The tempo of the Chinese Communist trade offensive in Southeast Asia slackened during the period largely because of supply difficulties on the mainland, although one country, Thailand, banned all imports of Chinese Communist goods. Malaya relaxed its recently imposed restrictions on Chinese Communist imports somewhat, but shipments from the mainland to the Federation and Singapore continued to decline, and Communist China made no significant purchases of Malayan rubber. The USSR, however, assumed a commanding position in the Malayan rubber market, taking nearly one-fifth of the rubber exports during the first quarter of 1959. In late 1958, Communist China stepped up its trade with Indonesia by purchases of Indonesian rubber and shipments of rice and textiles under a previous credit. India signed several new trade agreements with Bloc countries during the period which were geared to bring about a considerable increase in trade with the Bloc. Communist China continued to dominate Ceylon's trade with the Bloc during the period. During 1958, trade with Communist China, largely an exchange of rice for rubber, represented 7 percent of Ceylon's total trade. For the area as a whole, the percentage of total foreign trade with Bloc countries appeared to be increasing moderately.

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Latin America

Soviet and Satellite economic activities in Latin America during the first half of 1959 continued at a level of activity comparable to that in 1958, when trade increased sharply, reversing a 2-year downward trend. Argentina, Brazil, and Uruguay again were the main targets, although Bloc promotional activities were reported throughout Latin America. Strained diplomatic relations between the Bloc and Argentina and Mexico did not noticeably affect economic relations. Chinese Communist economic activities in Latin America, which increased sharply in 1958, appeared to slacken during the first half of 1959.

Trade between Latin America and the Bloc increased from \$195 million in 1957 to approximately \$266 million in 1958 but still accounted for less than 2 percent of total Latin American trade. Substantial increases in Bloc trade with Argentina and Uruguay more than offset a slight decline in Bloc trade with Brazil and a sharp drop in sugar imports from Cuba. Argentina, Brazil, and Uruguay accounted for \$230 million, or 87 percent, of all Latin American trade with the Bloc.

Latin American - Bloc trade in 1958 was characterized by Latin American imports of capital equipment, raw materials, and fuels and by exports of agricultural products and ores. This pattern of trade will probably continue throughout 1959, with fuel imports increasing in importance. Communist China, which made sizable purchases of Brazilian and Cuban sugar and Uruguayan wool in 1958 did not reenter the sugar markets during the first half of 1959, but it did continue to buy Uruguayan wool.

During the first half of 1959 the Soviet Bloc stepped up its promotional activities in Latin America to exploit the area's continuing economic difficulties. On 16 May, before the Conference of the UN Economic Committee for Latin America held in Panama, Soviet Ambassador to Mexico Vladimir Bazykin appealed strongly for increased Soviet - Latin American relations. Bazykin called for wider trade and cultural interchange and offered long-term credits and technical assistance in any field. Meanwhile, rumors of offers of large-scale Soviet credits and extraordinary Bloc offers to barter capital goods and fuels for surplus agricultural products circulated widely. Bloc commercial representatives traveled throughout the area during the period, and Bloc firms advertised in many Latin American publications. Bloc countries planned to participate in forthcoming Latin American trade fairs and encouraged Latin Americans to take part in fairs in the Bloc.

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Europe*

During the first half of 1959, Sino-Soviet Bloc economic activity in the underdeveloped countries of Europe was almost entirely limited to trade. Although Yugoslavia's trade with the Bloc during 1958 showed a substantial increase over that of 1957, continuing Bloc economic pressure on Yugoslavia was largely responsible for a decline in Yugoslav-Bloc trade in the first quarter of 1959. Yugoslavia's trade agreements for 1959 with the USSR, Communist China, and Rumania reflected a deterioration in trade relations, and Yugoslavia was refused observer status in CEMA. There were some indications, however, that Yugoslav-Bloc relations were improving in the spring of 1959.

The present Icelandic government has discouraged any expansion in the already high level of trade with the Bloc, and trade with the Bloc in 1958 was at the same level as in 1957, about one-third of Iceland's total trade. In the first half of 1959 the USSR and the Satellites continued to purchase large quantities of Icelandic fish. Growing dissatisfaction was expressed during the period, however, over the handicaps of barter trade with the Bloc, and there were increasing complaints about prices, quality, and hidden costs involved.

The most important developments in Soviet Bloc relations with Spain during the year were the renewal of trade and payments agreements with Czechoslovakia and Poland. Trade with the Bloc in 1958 showed a marked increase above 1957 but still accounts for only about 2 percent of Spain's trade.

Portuguese trade with the Bloc showed a significant upward trend in 1958 and early 1959. Trade with the Bloc, however, still represents only a small part of Portugal's total trade.

* Limited to the underdeveloped countries of Europe: Yugoslavia, Iceland, Spain, and Portugal.

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1 JANUARY - 30 JUNE 1959**

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(The complete text of this report has been published separately)

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28 AUGUST 1959

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The Bloc is providing assistance to construct and staff vocational training centers and technological institutes in a number of underdeveloped countries. In addition, more than 3,000 students from underdeveloped countries have received professional training over the past 4 years in educational institutions in the Bloc.

The use of book exchanges, particularly in connection with scientific and technical training, has become a much used Bloc tactic. The USSR reportedly spends about \$12 million annually to print technical and scientific publications in about 50 different languages.

The Bloc has provided high-level officials to advise the governments of certain underdeveloped countries on plans for economic development. Conspicuous among the beneficiaries of this advice have been India, the UAR, Ceylon, and Iraq.

Sino-Soviet Bloc trade with underdeveloped countries of the Free World during 1958 amounted to about \$2.1 billion, an increase of about 20 percent above the level reached in 1957. This increase was due mainly to a sharp expansion of Bloc exports which converted the previous Bloc trade deficit with these countries into a modest surplus. The European Satellites accounted for about one-half, and the USSR for about one-third, of all Bloc trade with the underdeveloped countries in 1958.

Although credits and grants have had a noticeable effect upon the level of trade between the Bloc and the underdeveloped countries, they account for only a modest share of the expansion which has taken place over the past 5 years. Among the most important factors in the rapid expansion of trade have been (1) the chronic overproduction of primary products in the underdeveloped countries and (2) the Bloc's concerted trade drive designed to exploit the difficulties created by the resulting surpluses. The expansion of trade is also a reflection of the improved political climate which has developed between the Bloc and the underdeveloped countries.

Trade fairs and exhibits, trade missions, and the conclusion of bilateral agreements continue as major Bloc tools for the expansion of trade with underdeveloped countries. In 1958 the Bloc participated in 55 trade fairs and exhibits in these countries and planned to participate in at least 44 in 1959.

During the first 6 months of 1959 the Sino-Soviet Bloc signed 13 new trade agreements with the underdeveloped countries, bringing the total of such agreements to 188 as of 30 June 1959.

Although difficulties have arisen in isolated cases, the performance of the Bloc in connection with its economic aid program generally has been considered satisfactory and has been well received by most of the underdeveloped countries involved.

A summary of Bloc economic activities in underdeveloped countries, by region, follows:

Middle East and Africa

The Sino-Soviet Bloc economic offensive in the Middle East and Africa was focused mainly on Iraq, Afghanistan, and the UAR during the first half of 1959. The increased Soviet influence in Iraq, which became evident after the coup of 14 July 1958, was reflected in the \$137.5 million Soviet-Iraqi economic assistance agreement that was signed on 16 March 1959. Further evidence was seen in the arrival of military equipment from the USSR during the period under the terms of the arms agreement concluded in late 1958. Although the implementation of the economic assistance agreement has scarcely begun, it became apparent during the period that the Soviet Bloc was destined to play a major role in the fulfillment of Iraqi development plans. The opportunity for large-scale Western participation in such plans was not encouraging.

Soviet Bloc activities in Afghanistan during the period were highlighted by an \$80 million grant in May for a 470-mile road from the Soviet railhead at Kushka on the Afghan-Soviet border to Kandahar in the southern part of the country and the extension of a gift of 40,000 tons of wheat to alleviate an Afghan shortage. The USSR had attained a commanding position in Afghanistan's foreign trade by the middle of 1959, accounting for at least 40 percent of the country's total trade (virtually 100 percent in the case of imports of sugar and exports of cotton and wool). Of all the underdeveloped countries, Afghanistan is the most dependent on Soviet aid and trade.

The most significant events in the UAR affecting that country's economic relations with the Sino-Soviet Bloc during this period were the completion of the Czechoslovak-built petroleum refinery at Homs, Syria, on 15 June and the finalization of UAR-Soviet plans for the construction of the first stage of the Aswan High Dam. No new credit agreements were concluded, and Bloc activities were confined principally to technical surveys and to the implementation of projects under existing credit agreements, especially in the Egyptian region. Aside from the Homs refinery, Bloc activities in the Syrian region seemed to lag during the period. Bloc countries continued to be major trading partners of the UAR, and purchases of Egyptian cotton showed a marked increase above the previous year. Bloc exports of

capital goods to the Egyptian region were apparently up significantly over the previous period. On the other hand, the cooling in political relations between the UAR and the USSR has precipitated an effort by Nasser to lessen his economic dependence on the Bloc.

Elsewhere, Bloc activities were of significance in Yemen, where Communist China is engaged in a roadbuilding program, and in Guinea, where, at the present time, the Bloc has apparently focused its economic offensive in West Africa. In spite of Bloc efforts in Yemen over the period, which included the shipment of wheat to the drought-stricken country, there was a noticeable cooling in relations with Bloc countries, particularly Communist China. This trend stems from the change in Nasser's attitude toward the Bloc after his December speech attacking Communism in Arab countries. Yemen now appears desirous of curtailing its economic relations with the Bloc and strengthening those with the West. In Guinea, Bloc activities consisted mainly in concluding trade agreements, making modest gifts of arms and other goods, and in the dispatching of technical missions to the country.

South and Southeast Asia

During the first half of 1959, Bloc economic activity in Southeast Asia concentrated on implementing existing programs. In Indonesia, which received most of the Bloc aid extended to the area during this period, deliveries of armaments under the 1958 Czechoslovak and Polish contracts were nearly completed. A tire plant built with Czechoslovak aid was inaugurated, and it appeared that the East German sugar mill might finally be ready for operation. Contract negotiations, however, for major development projects under the \$100 million Soviet loan were proceeding slowly. Delays in utilizing equipment already delivered attested to Indonesia's limited ability to absorb further foreign aid at this time. Repayment problems posed by last year's heavy borrowing from the Bloc as well as increased availability of economic and military credits from Free World sources influenced the government's attitude toward new Bloc economic overtures, but several new Bloc credits in small amounts were accepted and a continued interest in acquiring additional Bloc military equipment was evident. The Bloc was able to expand its influence in the vital Indonesian merchant shipping industry during the period.

India continued to be receptive to all offers of economic aid to help meet the foreign exchange requirements of its Second and Third Five Year Plans. During the period, India accepted a Soviet credit of \$20 million for the development of its pharmaceutical industry, bringing total Bloc credits to India to \$323 million. A Soviet economic mission made a 15-day tour of India in March which was followed

in May by a visit to Moscow by a high-level Indian economic delegation. The Indian mission discussed not only industrial projects which the USSR has already agreed to build in India but also additional projects included in India's Third Five Year Plan.

Nepal concluded an economic agreement with the USSR in April under which Nepal will receive a grant of \$7.5 million for economic and technical assistance. This marks the first time that Nepal has accepted assistance from the USSR and the first time that it has agreed to admit Bloc technicians.

Reluctance of the government of Burma to finance new development projects and a continued desire for foreign grant assistance as opposed to loans were factors inhibiting the expansion of Bloc economic relations with Burma. Three Soviet construction projects now under way made good progress, but other projects were canceled and the contracts of most of the members of the Soviet agricultural mission to Burma were not renewed.

Elsewhere in the area, Cambodia accepted no further aid from the Bloc, but activity under the Chinese Communist aid agreement was accelerated as construction work on three factories was started.

The tempo of the Chinese Communist trade offensive in Southeast Asia slackened during the period largely because of supply difficulties on the mainland, although one country, Thailand, banned all imports of Chinese Communist goods. Malaya relaxed its recently imposed restrictions on Chinese Communist imports somewhat, but shipments from the mainland to the Federation and Singapore continued to decline, and Communist China made no significant purchases of Malayan rubber. The USSR, however, assumed a commanding position in the Malayan rubber market, taking nearly one-fifth of the rubber exports during the first quarter of 1959. In late 1958, Communist China stepped up its trade with Indonesia by purchases of Indonesian rubber and shipments of rice and textiles under a previous credit. India signed several new trade agreements with Bloc countries during the period which were geared to bring about a considerable increase in trade with the Bloc. Communist China continued to dominate Ceylon's trade with the Bloc during the period. During 1958, trade with Communist China, largely an exchange of rice for rubber, represented 7 percent of Ceylon's total trade. For the area as a whole, the percentage of total foreign trade with Bloc countries appeared to be increasing moderately.

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Latin America

Soviet and Satellite economic activities in Latin America during the first half of 1959 continued at a level of activity comparable to that in 1958, when trade increased sharply, reversing a 2-year downward trend. Argentina, Brazil, and Uruguay again were the main targets, although Bloc promotional activities were reported throughout Latin America. Strained diplomatic relations between the Bloc and Argentina and Mexico did not noticeably affect economic relations. Chinese Communist economic activities in Latin America, which increased sharply in 1958, appeared to slacken during the first half of 1959.

Trade between Latin America and the Bloc increased from \$195 million in 1957 to approximately \$266 million in 1958 but still accounted for less than 2 percent of total Latin American trade. Substantial increases in Bloc trade with Argentina and Uruguay more than offset a slight decline in Bloc trade with Brazil and a sharp drop in sugar imports from Cuba. Argentina, Brazil, and Uruguay accounted for \$230 million, or 87 percent, of all Latin American trade with the Bloc.

Latin American - Bloc trade in 1958 was characterized by Latin American imports of capital equipment, raw materials, and fuels and by exports of agricultural products and ores. This pattern of trade will probably continue throughout 1959, with fuel imports increasing in importance. Communist China, which made sizable purchases of Brazilian and Cuban sugar and Uruguayan wool in 1958 did not reenter the sugar markets during the first half of 1959, but it did continue to buy Uruguayan wool.

During the first half of 1959 the Soviet Bloc stepped up its promotional activities in Latin America to exploit the area's continuing economic difficulties. On 16 May, before the Conference of the UN Economic Committee for Latin America held in Panama, Soviet Ambassador to Mexico Vladimir Bazykin appealed strongly for increased Soviet - Latin American relations. Bazykin called for wider trade and cultural interchange and offered long-term credits and technical assistance in any field. Meanwhile, rumors of offers of large-scale Soviet credits and extraordinary Bloc offers to barter capital goods and fuels for surplus agricultural products circulated widely. Bloc commercial representatives traveled throughout the area during the period, and Bloc firms advertised in many Latin American publications. Bloc countries planned to participate in forthcoming Latin American trade fairs and encouraged Latin Americans to take part in fairs in the Bloc.

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Europe*

During the first half of 1959, Sino-Soviet Bloc economic activity in the underdeveloped countries of Europe was almost entirely limited to trade. Although Yugoslavia's trade with the Bloc during 1958 showed a substantial increase over that of 1957, continuing Bloc economic pressure on Yugoslavia was largely responsible for a decline in Yugoslav-Bloc trade in the first quarter of 1959. Yugoslavia's trade agreements for 1959 with the USSR, Communist China, and Rumania reflected a deterioration in trade relations, and Yugoslavia was refused observer status in CEMA. There were some indications, however, that Yugoslav-Bloc relations were improving in the spring of 1959.

The present Icelandic government has discouraged any expansion in the already high level of trade with the Bloc, and trade with the Bloc in 1958 was at the same level as in 1957, about one-third of Iceland's total trade. In the first half of 1959 the USSR and the Satellites continued to purchase large quantities of Icelandic fish. Growing dissatisfaction was expressed during the period, however, over the handicaps of barter trade with the Bloc, and there were increasing complaints about prices, quality, and hidden costs involved.

The most important developments in Soviet Bloc relations with Spain during the year were the renewal of trade and payments agreements with Czechoslovakia and Poland. Trade with the Bloc in 1958 showed a marked increase above 1957 but still accounts for only about 2 percent of Spain's trade.

Portuguese trade with the Bloc showed a significant upward trend in 1958 and early 1959. Trade with the Bloc, however, still represents only a small part of Portugal's total trade.

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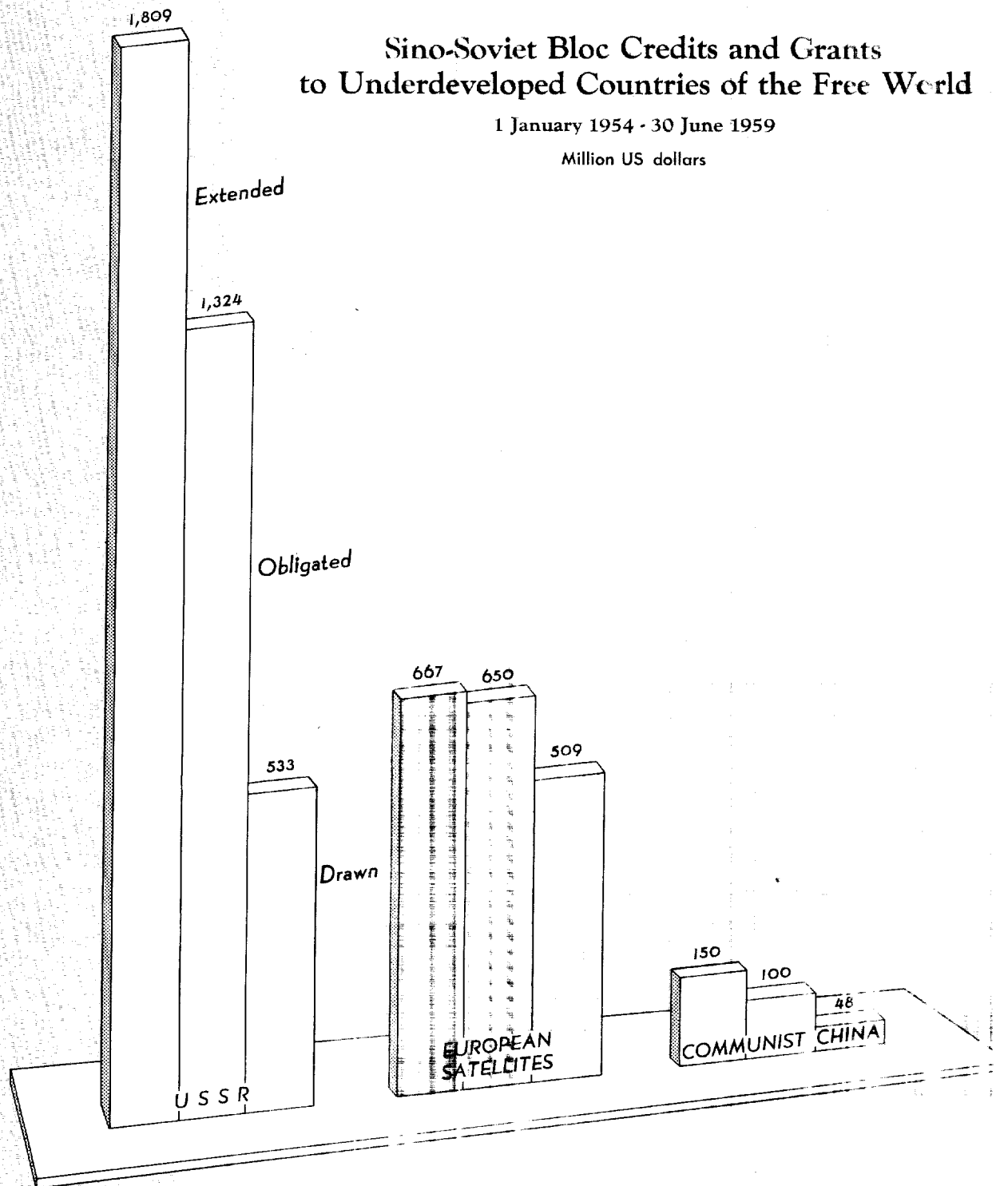
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Sino-Soviet Bloc Credits and Grants to Underdeveloped Countries of the Free World

1 January 1954 - 30 June 1959

Million US dollars



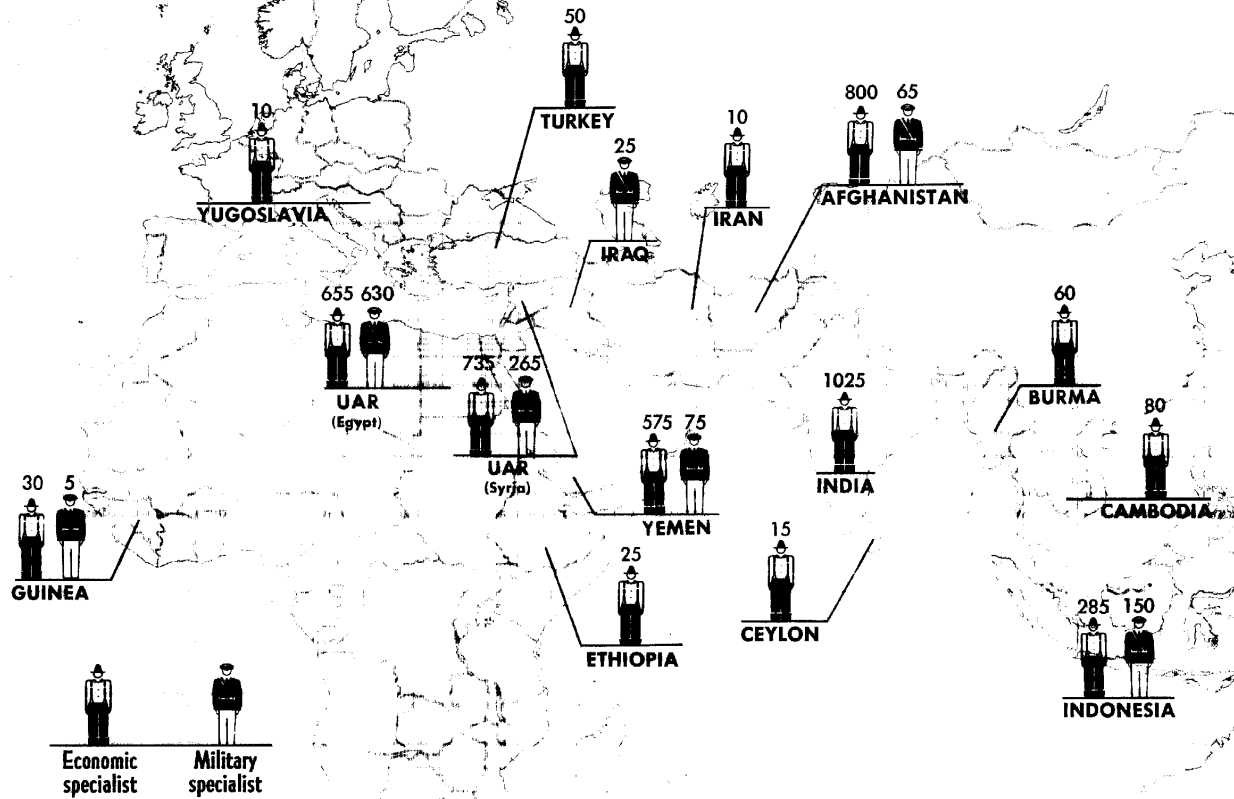
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Figure 1

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Note: Argentina had 100 economic specialists, and Brazil, Chile, Mexico, and Pakistan are believed to have had less than 5 each.

Sino-Soviet Bloc Economic and Military Specialists in Underdeveloped Countries of the Free World

1 January - 30 June 1959

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Figure 2

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